Carnegie Foundation for the Advancement...

Some misapprehensions touching life insurance

New York

[1919?]

98-84382-1
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

Carnegie foundation for the advancement of teaching.

Some misapprehensions touching life insurance. New York [1919?]

3 p. l., 3-75 p. 14½cm.

1. Insurance, Life. I. Title.

Library of Congress LB2334.C56 19-18616
[2]

ONLY ED

RESTRICTIONS ON USE: *Reproductions may not be made without permission from Columbia University Libraries.*

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 9:1 IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 4-2-98 INITIALS: PB

TRACKING # : 31817

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Carnegie Foundation for the Advancement of Teaching

Some misapprehensions touching life insurance

Bibliographic Irregularities in the Original Document:

List all volumes and pages affected; include name of institution if filming borrowed text.

_____ Page(s) missing/not available: _____

_____ Volume(s) missing/not available: _____

_____ Illegible and/or damaged page(s): _____

_____ Page(s) or volume(s) misnumbered: _____

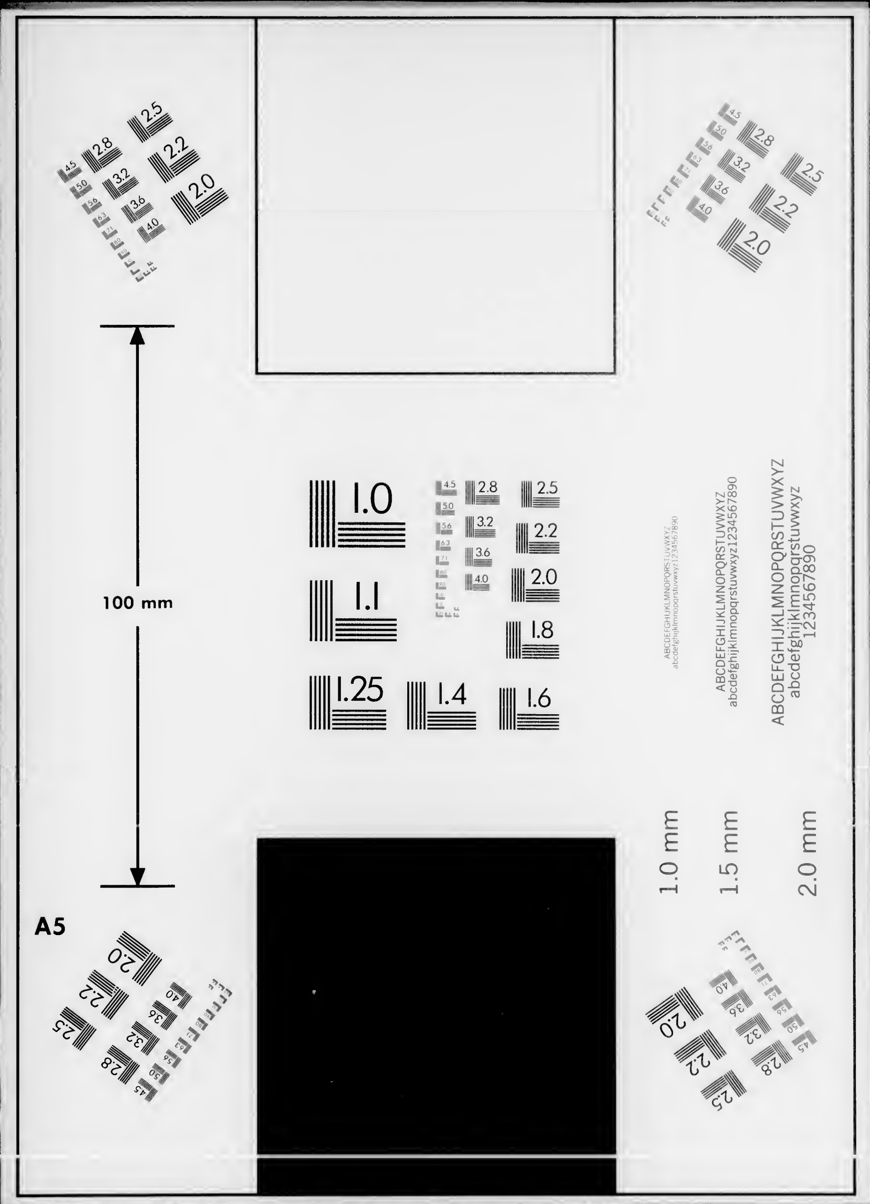
_____ Bound out of sequence: _____

X Page(s) or volume(s) filmed from copy borrowed from: Boston Public Library
(cover - p. 3, 72 - end)

_____ Other: _____

_____ Inserted material: _____

TRACKING#: MSH31817


100 mm
A5
1.0
1.1
1.25
1.4
1.6
1.8
2.0
2.2
2.5
2.8
3.2
3.6
4.0
4.5
5.0
5.6
6.3
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890
1.0 mm
1.5 mm
2.0 mm

Some Misapprehensions Touching Life Insurance

Published by the

Carnegie Foundation
For the Advancement of Teaching

576 Fifth Avenue
New York

In the experience of two hundred years the only method by which large numbers of men have been led to insure is through the direct solicitation of agents. This is particularly true of that majority of men who most need insurance, men of small income living on fixed salary . . .

It is of course a fundamental question whether teachers can be induced to avail themselves of insurance facilities, however favorable, without the pressure of the soliciting agent. This is a matter which only experience can demonstrate.

Twelfth Annual Report of the Carnegie Foundation (1917)

SYNOPSIS.

The limited use of insurance by college teachers is due to its lack of adjustment to their needs, 3.

The Teachers Insurance and Annuity Association now provides, without overhead cost, individual advice and adapted and inexpensive policies not otherwise available, 4, 5.

The great insurance companies have co-operated with the Association which is in no sense their rival, 6. A pamphlet, however, has been circulated, 7, attacking the view of the Carnegie Foundation that endowment insurance is not suitable for teachers of limited income, 8.

Legitimate life insurance, 9, has been involved with savings, speculation, and agents' commissions, 10. Long term endowment insurance is less suitable to the teacher than separate term and annuity contracts, 11, since it combines alternate provisions, 12, both of which cannot be realized, 13, and is therefore expensive, and speculative, 14.

A combination of insurance and annuity is definite, 15, less expensive, and provides greater protection, 16. This is demonstrated, 17, by fair comparisons, 18, of actual rates, 19, benefits, 20, and contracts, 21. Such a combination is inexpensive and unspeculative, provides larger income, increasing protection, 22, advantageous retirement, and secures the co-operation of the college, 24.

Commercial companies cannot provide these features, 24, and the value of their endowment insurance, 25, is reduced by policy loans, 26.

Participating policies, 26, and mutual companies, 27, cannot under insurance legislation, 28, free policy-holders from overhead expenses, 29. Mutualization, 30, gives only apparent but not real control to policy-holders, 31.

The Teachers Insurance and Annuity Association is supported by a philanthropic corporation, 32, with prospective representation of policy-holders, 33. Participation in "divisible" surplus, 34, the same in stock and mutual companies, 35, is never contractual, 36. The Teachers Insurance and Annuity Association conducts its business at the lowest net rates, without overhead, without profit, with the prospect of real participation, 37, unusual security, and freedom from commercial pressure, 38.

Misapprehensions concerning its policies are based on lack of legal or technical knowledge, 39, lack of information, 40, or misleading comparisons, 41. Its premiums are net, 42. Commercial companies load premiums for expenses, 43, sometimes return "dividends" which reduce the net cost, 44, but not to that in the Teachers Association, 45, because of its net rate, 46, and freedom from overhead charges, 47, in addition to the suitability of its policies, 48.

College annuities and salaries, 49, are, of course, related, 50; contributions require self-denial, 51, even if salaries are increased, 52, but they give certainty, 53, in case of retirement, 54, or earlier withdrawal, 55.

Insurance agents are not needed by college teachers, 56, who are in institutional groups, 57, and accustomed to the study of printed information, 58. The Teachers Insurance and Annuity Association, 59, will provide full information, 60, and individual advice, 61.

The Teachers Insurance and Annuity Association, 62, was organized by the Carnegie Foundation, 63; its trustees are financiers, actuaries, and educators, 64. It assumes some of the work of the Foundation, 65, which will continue its free pensions for some fifty years, 66, and embodies the results of the Foundation's experience, 67, and the desires of college teachers, 68, with a few striking exceptions, 69.

The real questions before college teachers, 70, are not details but the fundamental needs of protection against premature death and dependence in old age, 71. Free pensions do not provide this protection, 72. Inexpensive, joint, contributory, contractual retiring allowances do, 73. Leading institutions have recognized this fact, 74, and the Teachers Insurance and Annuity Association meets the need, 75.

The Limited Use of Insurance by College Teachers.

College teachers as a group make but limited use of the facilities possible through the world's knowledge and experience of life insurance. This is not due, primarily, to the modest scale of college salaries. Men whose families live on fixed salaries are precisely those who have most to gain by cooperation for their common protection and exactly those who stand in most need of some effective agency for promoting such cooperation. The inadequate participation in insurance by teachers is due partly to the lack of a form of insurance agency suited to their circumstances and partly to the tradition of extreme technicality which has grown up about the subject of insurance. The Teachers Insurance and Annuity Association was established to meet this situation by affording insurance and annuity contracts specially adapted to the circumstances of the teacher's economic situation and to afford him at the same time such information concerning these policies as will enable him to decide for himself the form of policy suitable to his needs and to his purse.

The Advantages of the Teachers Insurance and Annuity Association.

The essential advantages which it offers to the teacher as compared with ordinary agencies are these:

1. Policies in insurance and in deferred annuities that mutually supplement each other and are best adapted to the needs of one who expects to live on a moderate but fairly secure income. Some of these policies cannot be had in existing companies.

2. These policies are free of overhead cost of management by reason of what is practically an endowment of $1,000,000, given in the form of capital and surplus of the Teachers Insurance and Annuity Association. The overhead cost absorbs on the average something like 20 per cent of all premiums paid by policyholders in the well conducted commercial insurance company. A company so endowed can provide any stated form of insurance at a lower rate than one which must pay this charge out of the premiums of its policyholders.

3. Such a company cannot employ agents to convert teachers to an appreciation of these opportunities in the matter of life insurance and old age annuities. On the other hand, it deals with highly

educated and intelligent men and women. They are not isolated individuals but constitute groups in some hundreds of colleges scattered over the United States and Canada. It is thus possible to put into their hands the information necessary to decide what kind of insurance policy and what annuity contract is suitable to each individual. The knowledge of the elementary principles of insurance and annuities needed for such a decision is attainable by any intelligent man or woman who is willing to give the matter brief attention and does not trench upon the field of technical and legal questions involved in the operation of insurance companies and which have divided insurance authorities for a century. It may be safely assumed that the teacher's true interest will be more surely served by this process than by leaving the choice of a policy to an insurance agent, often innocent of any great knowledge of the subject, and who, however good his intentions, is financially interested in the form of the policy to be chosen. Policies designed to suit each teacher's needs, at a cost free of all overhead, chosen without any complication as to an agent's commission, characterize the service offered by the Teachers Insurance and Annuity Association.

Co-operation of the Great Insurance Companies.

An insurance and annuity association upon the basis just described, offering its service to a limited group of professional men and women, is clearly no rival to the established insurance agencies. The great insurance companies have recognized this fact and their experts have cooperated with advice and suggestions in the establishment of the Teachers Insurance and Annuity Association. To this rule there has been a notable exception. The Provident Life and Trust Company of Philadelphia, (which as its name indicates is a combination of an Insurance Company and a Trust Company), has issued and is widely circulating a pamphlet which, while containing various complimentary statements to the effect that "The Teachers Association is a fine conception . . . the general principles laid down for its guidance are sound. . . . The Carnegie Foundation has ably analyzed the two major contingencies facing the average man, etc.," is nevertheless, an unfriendly attack upon the policies offered by the Teachers Insurance and Annuity Association and an advertisement of its own wares.

Any constructive social machinery newly established must expect not only

criticism, but a certain amount of misunderstanding. Genuine criticism ought to be welcome and misrepresentation and distrust may safely be left to time and to fuller knowledge. The advantages offered to younger teachers in the insurance and annuity contracts of the Teachers Insurance and Annuity Association are so great that in time these policies will make their own way. When a man of 30 can by a payment of $5.00 a month, in cooperation with his college, provide a retiring allowance of $1,000 a year at age 65, the social machinery necessary for his protection against the hazard of dependence in old age has been brought within the reach of the great body of teachers.

The pamphlet of the Provident Life and Trust critic might, therefore, well be left to time to answer had it been addressed only to the company's agents and clientele. It has however been circulated in great numbers among college teachers.

Under these conditions it seems desirable to point out that the pamphlet of the Provident Life and Trust Company is so framed as to mislead those who are not familiar with the fundamental facts of life insurance.

The publication of this attack on the part of an old and established company is sought to be justified on the ground

of certain general discussions of insurance which appeared in the annual reports of the Carnegie Foundation before the Teachers Insurance and Annuity Association was born. The inadequacy of this reason will be appreciated by all who read the extracts quoted in the pamphlet itself from the reports of the Foundation. These set forth the fact that no attack upon endowment insurance is intended, that endowment policies will in fact be offered by the Teachers Insurance and Annuity Association to those who find them suitable to their needs, but that the Teachers Insurance and Annuity Association was designed to meet the needs of the modest salary of a teacher. The typical college teacher begins with twelve to fifteen hundred dollars a year at somewhere between twenty-five and thirty years of age. He anticipates an active service of between thirty and forty years, during which his maximum salary will not exceed three or four thousand dollars. To one looking forward to such conditions of salary, whether his life be long or short, there are other methods of insurance better suited than that of the endowment policy. This is common knowledge to all insurance men.

The actual circumstance that led up to this outburst on the part of an established company can be appreciated best by a brief reference to life insurance experience and history. Such a statement will enable teachers—who compose the only audience to which this paper is addressed—to gain not only a clear view of the immediate question under discussion, but to appreciate why those seeking to meet the needs of the teacher for insurance and annuities found it necessary to establish a new agency for this purpose.

Legitimate Life Insurance.

Life insurance in its true conception is a device for protecting the dependents of the insured against the risk of his premature death. The simplest, most direct and cheapest method of meeting this purpose is through a policy covering the simple life risk and entirely analogous to a fire insurance policy. This original purpose of life insurance became involved, in time, with various plans for accumulating savings for the benefit of the insured. Some of these, like tontines, had a large speculative element.

The various forms of policies which have been gradually evolved are the resultants of these two tendencies, but throughout this process these facts are prominent: Large numbers of men have been induced to insure only by solicitation

of agents; hence arose the great commercial insurance organizations, financially strong and rendering a great service to society, but offering policies whose forms were affected by two influences oftentimes antagonistic,—the first the sincere wish to fit the policy to the needs of the insured, the second the necessity to offer a form of policy that would enable the agent to make a living.

The teacher living on a professor's salary desires to protect his family during his income-earning period by insurance. He desires to provide year by year a sum of money which may afford him support after his income-earning power diminishes or fails. The Teachers Insurance and Annuity Association proposes to accomplish these two purposes by issuing two policies, one a term insurance policy to cover the life risk during the period of active service; the second, a deferred annuity contract to articulate with the insurance policy.

The actuary of the Provident Life and Trust Company refers to this arrangement as "hybrid" insurance and insists that the teacher can do much better to take out a single long term endowment policy (presumably in the Provident Life and Trust Company) which shall provide insurance during the income-earning period of the teacher's

life and a sum of money at the end of that period as the basis of an old age annuity. The argument of the actuary of the Provident Life and Trust is based on the case of a man aged 30 who takes out a $10,000 endowment policy at that age to mature at age 65. For comparison it will be useful to follow the same illustration, though few teachers at age 30 on the typical teacher's salary can afford to take out $10,000 endowment policies.

A man aged 30 who takes out a thirty-five year endowment policy to mature at age 65 will either die during the interval of thirty-five years, in which case he will avail of his insurance and lose the benefit of his accumulations, or he will live to the end of the thirty-five year term, in which case he will have had the protection of his insurance and can avail of his accumulations augmented by a share in the payments of those who have died. We will examine the two contingences separately.

The Benefits of the Endowment Policy in case of Death before Maturity.

The endowment insurance policy is a survival of the tontine regime in life insurance. "A pure endowment policy is one payable only to those who live to

complete the endowment period. Those that die before the end of that period receive nothing. Regular endowment insurance provides for the payment of the full amount of the policy to the beneficiaries of any who die during the endowment period and to those policyholders who live until the end of the period. The endowment insurance policy is therefore merely a combination of term insurance and pure endowment. Under the former those who die during the period are paid, and under the latter those who live to the end of the period are paid. The net annual premium of a twenty-year endowment policy consists of the net annual premium of a twenty-year term policy plus the net annual premium of a twenty-year pure endowment."* The term policy is pure insurance, the endowment pure tontine. The combination of the two which produces the endowment insurance policy might fairly be called a "hybrid."

For the simple reason just stated any man who purchases an endowment insurance policy and who dies before the maturity of the endowment is bound to pay too much for the protection he has received since he is paying for two benefits and in case of death his family can receive only one. If a man of 30 takes out an endowment policy for $10,000 to mature at age 65 and dies during the 35 year interval, he has been paying for a thirty-five year term insurance policy and for a thirty-five year pure endowment policy. If he dies his family realizes only on the term policy. In the Teachers Insurance and Annuity Association a man of 30 can buy a $10,000 term policy ending at age 65 for a net annual premium of $122. A $10,000 endowment insurance policy will cost on the same net basis $219, both including waiver of premium in case of disability. One who bought a straight term policy and put the $97 difference into an annuity contract and who died in his sixty-fourth year would leave his dependents over $17,000 from the two benefits as compared with $10,000 from the endowment policy. The man who buys an endowment policy over a long term does so with the certainty that if he dies before its maturity he has been paying for two benefits while his beneficiaries can receive only one.

Of one hundred men who take out endowment policies at age 30 to mature at age 65, more than forty* would die before the maturity of the policy. Forty out of one hundred are certain to pay too

*The International Encyclopedia.

*American Mortality.

much for the insurance benefit they receive. What a man really does in buying such a policy is to speculate on the chance that he will live to the maturity of the policy, in which case his endowment will be helped out by the deaths of others which have occurred during the long interval. The teacher who starts with a salary of $1,500 a year and whose maximum income is not likely to exceed $4,000 cannot afford to speculate on this possibility.

The process by which the writer of the Provident Life and Trust pamphlet contrived to obscure these essential facts is ingenious. During this part of his discussion he avoids quotation from the actual rates published in the Handbook of the Association and proceeds to recompute the deferred annuity on a 3½ per cent basis. He shelters himself behind the statement "This basis provides the smallest net life insurance premiums permitted by the law." The author is, of course, aware that the maximum rate for *annuities* is four per cent and that this is one reason for separating the annuity contract from the insurance contract. The annual premium of $244, which he uses is, therefore, purely fictitious and is much higher than the rate quoted for the two policies in the Handbook of the Teachers Insurance and Annuity Association.

The Combination of Insurance and Annuity.

To set forth the actual facts there was need simply to quote the rates given on page 96 of the Handbook. On this page is given an illustration of the combination of a $10,000 decreasing policy with a deferred annuity contract. The decreasing policy has three great advantages: it has a constant premium, the annual decrease in the face of the policy after age 40 goes on coincidently with the rise in the deferred annuity accumulations, and in the third place, the policy is full paid at age 65 and provides cash payment at death. In the illustration given on page 96 the decreasing policy begins at age 30 with $10,000. It remains at this level till age 41, when it begins to diminish $300 annually. At 65 the insured has finished all payments and still has $2,500 of insurance in case of death. At age 70 and thereafter it remains at $1,000, payable at death.

On page 96 of the Handbook from which the writer of the Provident Life pamphlet might have quoted is shown the working of a combination of this policy on a monthly basis of $8.58 with a deferred annuity policy whose cost per month is $10, one-half of which is paid

by the college. The total monthly cost is $18.58, the cost to the teacher $13.58. These monthly payments would aggregate in the year $222.96 ($220.23 if the insurance premium is paid annually) or to the teacher $162.96. If the insured dies during the period between 30 and 65, he receives both benefits which, as is clearly shown on page 96, will always be in excess of $10,000 and for a great part of this time will be in excess of $11,000 and at its maximum $11,560. The argument of the author of the Provident Life pamphlet that there is an advantage to the insured in keeping the total protection at exactly $10,000 is, of course, pure moonshine. There is no possible objection to an arrangement that provides for the widow of a teacher $11,500 insurance at the time when the responsibilities of a growing family are heaviest instead of an exact $10,000. The widow and her dependent family will find no fault with the extra $1,500.

The essential facts are perfectly clear. There is no way by which the teacher may have the benefit of his insurance policy and of his saving accumulation during the long period of his active life except by putting them in separate contracts. The Teachers Insurance and Annuity Association does this, the Provident Life does not, but for the reasons

which will be made clear. We turn now to the case of the survivors of the endowment insurance policy.

The Benefits of the Endowment Insurance Policy for those who Survive to its Maturity.

In his discussion of this contingency the author attempts to produce the impression of superiority of his own wares, by comparing the two plans under conditions in which the benefits are widely different, a fact not apparent to the reader unless he is familiar with the computation of policy rates. The comparison purports to be one as between a $10,000 Endowment Insurance Policy issued by the Teachers Insurance and Annuity Association itself with the combination of a decreasing insurance policy and a deferred annuity contract, also issued by the Teachers Insurance Association. The argument is in the "out-of-your-own-mouth I condemn you" form and would be significant if true. It is best to quote the exact language of the writer:

"For example, from page 99 of the Teachers Association Handbook, we learn that $8.58 is the monthly premium at age 30 for the Association's $10,000 decreasing insurance policy. From Table

II on page 111 we compute that $11.08 is the Association's monthly savings fund premium to accumulate $10,000 in 35 years. The two together, therefore, amount to $19.66. From page 109 we learn that the monthly premium at age 30 for the Association's $10,000 Endowment at 65 is $18.80. On the yearly basis, therefore, the published rates appear to indicate that the combination costs but about $10 more than the endowment."

Upon the non-technical reader this statement produces only one impression, namely, that the combined monthly premiums of the decreasing insurance policy and the annuity contract amounting to $19.66 exceed the monthly premium of the corresponding endowment policy by $0.86 and that, therefore, on the yearly basis "the combination costs but about $10.00 more than the endowment." The reader will naturally assume that the two sets of figures refer to similar benefits, since otherwise there can be no significance in the comparison. Unless he is accustomed to such comparisons he will not discover that the decreasing insurance policy referred to above is full paid at age 65 and has a cash surrender value at that time of $865.00 which the author has coolly neglected in his comparison. Nor will

it occur to the reader to reflect that during the whole period between age 30 and age 65 the insured has had under the combination of policies a protection in excess of $10,000 and amounting during a part of that time to as much as $12,500. The net cost of this extra insurance (which is of great advantage during the active period of early life) is $800. In other words, the comparison quoted above is so worded that the reader is not likely to realize that the combination that cost $19.66 a month carried $1,665 of benefits in excess of the endowment policy that cost $18.80 a month. It goes without saying that when the $1,665 of additional benefits are included in the computation so as to make the two proposals comparable the quoted higher rate of the combined policies disappears.

A monthly payment of $10.12 will at the end of 35 years produce at four per cent a guaranteed accumulation of $9,136.89. If the teacher then avails himself of the cash surrender value of his full paid insurance policy (which it would be much against his interest to do) he would have a cash endowment for the purchase of an annuity of $10,001.89 and he would have paid at the monthly rate of $18.70 (not $19.66 as given above). In addition he would have enjoyed during the

whole 35 years a protection in excess of $10,000. That protection would have amounted at its maximum to $11,700. In other words under the two policies, the survivor would have his endowment of something over $10,000 with which to purchase an annuity at age 65, he would have received in addition $560 worth of extra insurance and the cost would have been at the monthly rate of $18.70. Put in tabular form the comparison stands as follows, when both policies are upon exactly the same basis:

Policy and Monthly Cost	If the insured dies before maturity	If the insured survives to maturity
Endowment $18.80	$10,000	$10,000
Combination $18.70	Minimum $10,000 Maximum $11,700	$10,002 or 9,137 with full paid insurance as follows: at 65....$2,500 66.... 2,200 67.... 1,900 68.... 1,600 69.... 1,300 70 and after 1,000

In other words even for the survivor of the endowment period the combination offered by the Teachers Insurance and Annuity Association is better than the Single Endowment policy.

The method by which the author of the Provident Life and Trust pamphlet seeks to produce the opposite impression consists in stating the full benefits of his own plan while omitting some of the benefits of the other. The figures he quotes are technically correct. The monthly costs which are compared—$18.80 on the one hand and $19.66 on the other—are taken from the Handbook of the Teachers Insurance Association. They refer, however, to entirely different benefits, a fact which the author studiously omits to point out, and which the lay reader will not discover unless his attention is drawn to it. One feels a genuine sense of disappointment and regret that an old and established company should feel it necessary to conduct its propaganda upon this plane.

The Reasons for Separating the Insurance Contract from the Annuity Contract.

Every consideration of the interest of the teacher living on fixed salary lies on the side of separating his insurance policy from his annuity policy. The principal reasons may be summed up as follows:

1. The man who buys endowment insurance is certain to pay more for his protection than the risk is worth if he dies before the completion of the endowment period, since he pays for two benefits and can realize only on one.

2. Under the law the maximum rate of interest on an insurance contract is 3½ per cent, while the deferred annuity contract may be on a 4 per cent basis. The teacher thus obtains a larger guaranteed result for his deferred annuity contract by having it separate.

3. To take out an insurance policy requires a medical examination, to take out a deferred annuity contract requires no medical examination.

4. Under an endowment policy covering a long term the proportions of insurance and investment are arbitrarily fixed. In most cases a teacher will desire

to change his proportion of insurance to annuity accumulation as his age and financial circumstances change. For example, with increasing salary he will increase his annuity accumulation, or, on the other hand, in case of disability he will desire to avail of his annuity at an earlier age but to continue with his insurance. Under an endowment insurance policy it is not possible to provide these variations which the teacher is certain to desire and which it is the object of the Teachers Insurance Association to provide.

5. No life insurance company can under the New York law issue an endowment policy guaranteeing that the proceeds may be invested in any life annuity upon terms as favorable as the Association's rates based upon the McClintock Table with 4 per cent interest.

6. Colleges recognize their obligation to join with their teachers in contributions to a deferred annuity policy, but for obvious reasons they do not contribute toward the premiums of insurance policies.

All of these considerations weighed in the decision of those who were responsible for the forms of policies adopted by the Teachers Insurance and Annuity

Association. The policies were planned always from the point of view of the teacher living on salary, not from the point of view of one who has additional financial resources.

The True Origin of Unfriendly Criticism.

It remains to point out briefly why the Provident Life and Trust Company does not recommend the combination of term insurance and deferred annuity to its own policyholders. The reason is simple. The Provident Life and Trust Company cannot afford it. The term policy is the cheapest and simplest form of insurance, and, therefore, yields the smallest commission for the agent. Furthermore, the Provident Life and Trust (as is the common practice in insurance) discriminates against this form of insurance by allowing for the agent's commission a much smaller percentage of the actual premium than that paid on an endowment policy. Neither the company nor the agents could afford to put any large proportion of its business into term insurance policies however the insured might prefer them. The difference in the point of view of the Teachers Insurance and Annuity Association and that

of the Provident Life and Trust Company lies in the fact that the former can afford to recommend to the applicant for insurance whatsoever policy best suits his circumstances and needs without involving the question whether the agent can make a living. The latter cannot.

The Justification for Endowment Insurance.

It ought still to be said that endowment insurance serves a useful purpose in the economic problems of many thousands of insured, notwithstanding the fact that during the entire life of the policy the insured is paying for two benefits while he can realize on but one. The reasons are mainly two—one has to do with insurance, the other with human psychology, and in insurance, as in most of the affairs of life, the latter factor cannot be ignored.

The endowment policy serves the real interest of the insured when it provides simultaneously for insurance during the income-earning period of his career and a fund against the needs of old age. The other reason is that expressed by the average man when he says, "If I hadn't taken out an endowment policy, I wouldn't have saved anything." As

a compulsory saving device the endowment policy has justified itself in many thousands of cases. This argument, however, has been weakened of late years by the growing habit of borrowing on policies, to which the endowment policy lends itself most readily. By this means the very purpose of insurance is defeated. The growing prevalence of this practice is giving grave anxiety to all insurance authorities.* For the man who has a large salary or who has other resources than salary the endowment insurance policy may be justified. It is not suited to the man living on a teacher's salary.

Why is the Teachers Insurance Association not a "Mutual" Company?

The writer of the Provident Life and Trust pamphlet is disturbed that the Teachers Insurance and Annuity Association is not a mutual company issuing participating policies. He writes, "If the policyholder is to receive his insurance at actual cost the surplus must eventually be distributed. The surplus under the policies of the Teachers Association will undoubtedly be large, and we see no valid reason why the contracts

* Huebner's Life Insurance, pp. 242-3.

should not provide for participation unless it is desired to withhold the surplus from the control of the teachers."

The actuary who prepared this pamphlet is quite aware of the difficulties in the way of starting a new Mutual Company but his question has very naturally been in the minds of many teachers.

The reasons have been set forth in the Reports of the Foundation but they may be re-stated in a few words. They are summed up in two simple facts:

1. It is practically impossible to start a new mutual insurance company under the New York State Laws.

2. It was found to be entirely to the interest of the future policyholders to incorporate the Teachers Insurance Association as a stock company with non-participating policies.

These conclusions were reached after many months of study and with the aid of the best legal and expert advice, including that of the experts of the office of the Superintendent of Insurance. Let us consider each proposition in turn.

Practical Difficulties.

The insurance laws of the State of New York as well as those of other neighboring states have become, since the

insurance investigation of 1906, extremely detailed and exacting. The various laws touching insurance regulation in the State of New York fill a large volume and he would be a bold man who undertook to find his way through these complicated enactments without expert assistance. This legislation is intended to be in the interest of the policyholder and in the main it is in his interest. The law had in mind, however, the commercial insurance company and its relations to its policyholders. It did not contemplate the case of a company which undertook to relieve the policyholders of the cost of management.

Section 97 of the Insurance Law of New York provides that no domestic Life Insurance Corporation shall in any calendar year expend or become liable for (on account of the various expenses incurred in its operations) a sum in excess of the aggregate amount of the actual loadings upon premiums received and assumed mortality gains. It is further provided that this prohibition shall apply to all amounts which any person, firm or corporation is permitted to expend on account of any such domestic life insurance corporation.

With respect to the limitations thus placed on the expenses of a new company the opinion of the Superintendent of

Insurance was stated in the following quotation: "It is a fact that under the provisions of that Section it would be practically impossible for a newly organized life insurance company on the mutual plan to keep within the limits presented by that Section."

Not only would it be necessary to expend a far larger sum than could possibly be realized at the beginning from the loadings in premiums but it was especially desirable to pay these expenses out of funds provided by another corporation so that policies might be issued without loading and at net rates. The law provides a way for carrying out this purpose by exempting from the provisions of Section 97 "stock corporations issuing and representing themselves as issuing non-participating policies exclusively."

All authorities agreed that the greatest contribution that could be made to the establishment of an Insurance and Annuity Company intended to serve teachers would be accomplished by providing what is practically an endowment from the income of which the overhead cost of management shall be met. This arrangement accomplishes two great ends—it relieves the policyholders of the cost of management and makes possible the issuing of policies at the net legal rate

free of any loading whatever. In order to be free from the limitations imposed on the expenditures of a mutual company and to issue policies free of loading, it was necessary that the company should be a stock company and that its policy contracts should be what are known as non-participating. That is to say, the policies issued by the company must contain no assurance of participation in any earned surplus available for distribution.

Advantages and Weaknesses of Mutualization.

This situation compelled those who were engaged in the effort to solve the problem of the teacher's protection to go carefully into the question, are there advantages to the policyholders in mutualization and in participating policies sufficient to counterbalance the great advantages to be gained by a form of organization that permits overhead cost to be paid out of what is practically an endowment? In other words,—what is Mutualization and what does it accomplish for the policyholders?

In the field of life insurance as in that of politics we become oftentimes the partisans, and sometimes the servants, of

phrases, which we treasure with real emotion but whose actual meaning as applied to our own conditions we often fail to ascertain. The term "democracy," for example, is on all lips but it may, according to the temperament of the individual, mean anything from a free government resting on constitutional guarantees to an autocratic class rule resting on force. The words "mutual" and "participating" are discussed in much the same temper as a sort of charter to the policyholder confirming his essential rights and privileges. Just what does mutualization and what does the participating policy secure for the policyholder?

The argument as to the relative merits of the mutual and of the stock company methods of organizing and managing life insurance business has gone on for many years. The advantages claimed for the mutual plan are these: First, no dividends are paid to stockholders; secondly, the company is controlled by the policyholders in such manner as they conceive to be in their own interest; thirdly, the insured will in time receive his insurance at actual cost through the return (in the form of so-called dividends) of such charges as are found to be unnecessary.

Organization of the Teachers Insurance and Annuity Association.

With regard to the first of these advantages claimed for the mutual company, it may be said that the stock of the Teachers Insurance and Annuity Association is held by the Carnegie Corporation of New York, a charitable corporation which has already shown its interest in the cause by contributing one million dollars for the capital and surplus of the Teachers Insurance and Annuity Association. The stockholders are prohibited by the Charter from using any of the surplus of the company for profit to themselves. In this respect the Teachers Insurance Association is on the same basis as a mutual company.

The claim that the policyholders of a mutual company control it is purely fictitious as is clearly shown in any elementary book on insurance. It is impossible for hundreds of thousands of policy holders scattered over a continent to participate in the government of such a corporation and it has never been done. On the other hand, the Carnegie Corporation of New York, recognizing the need for a real representation of the future policyholders in the government of the company, when it paid over to the

Teachers Association the one million dollars, passed the following resolution:

> "RESOLVED—That it is the intention of the Carnegie Corporation of New York, whenever a group of policyholders has been secured sufficiently large to be representative of the college and university teachers of the United States and Canada, in conference with the interested parties to provide machinery by which the policyholders, through representatives selected by them, shall participate in the election of the trustees who manage the Association."

So far as the actual representation of the policyholders is concerned, therefore, the Teachers Insurance Association represents a new and promising effort to furnish a real, not a fictitious representation. In this matter it is in advance of the Mutual Company.

The single point that remains and which forms the only basis of the demand that the Teachers Insurance Association should be mutualized is that feature of the Mutual plan which provides for distribution of surplus.

Participating and Non-participating Policies.

While mutualization as a form of government of a Life Insurance Company is open to very grave criticism, mutualization as a principle of returning to policyholders any surplus, not needed for expenses or for their legitimate protection, is a thoroughly just and sound one, although the practical methods of determining what part of this surplus is "divisible" and of determining the methods by which it shall be apportioned among the various classes of policyholders are still matters of wide difference of opinion and of practice.

Every insurance company must retain a surplus over and above its reserves for the protection of its policyholders against contingencies—for example against low interest rates or unusual mortality of which the recent influenza epidemic was a notable example. At the outbreak of the world war some of the more conservative companies cut down dividends. The possession of a considerable surplus is therefore always necessary for any company to guard against contingencies. The amount of this surplus retained from premiums and not divided with the policyholders depends somewhat on the management of the particular company.

The superintendent of agencies is likely to insist on large dividends so that his agents can make a good showing in competition with other companies. The actuary's office is the conservative influence generally insisting on a sound surplus against all contingencies. According as a life insurance company is the more affected by one or the other of these influences it is likely to be conservative or liberal in its interpretation of the term "divisible" surplus. Over both stands the Superintendent of Insurance.

The method of determining "divisible" surplus will be exactly the same in a stock company as in a mutual company, while a company which neither paid dividends to its stockholders nor used any of the premiums of the policyholders to pay cost of management would naturally have a margin of "divisible" surplus larger than the commercial company whether it does business on the mutual plan or on the stock plan.

What guarantee does the holder of a participating policy in a mutual company have as to dividends?

The man who does not read his policy, and few policyholders do, is under the impression that he has a contract for future "dividends." This is a misapprehension. The very principle of the mutual company is that the company

may call on the policyholder for the full loaded premium if it finds it necessary or desirable to do so. What the policy does contain is an agreement that the policy designated as participating shall share, in its due proportion, in any "divisible" surplus the company may distribute. Future dividends can not be made contractual. The stock company writing non-participating policies will deal with any actually earned surplus which is "divisible" in exactly the same way. It is not permitted under the law to promise in advance to distribute any "divisible" surplus, but when such surplus has been accumulated it may distribute it either by dividends or in such other way as the law may permit. This has been the practice of such companies in the past.

It is distinctly stated in the Charter of the Teachers Insurance and Annuity Association that the purpose of the corporation shall be "to provide insurance and annuities for teachers . . . on terms as advantageous to its policyholders as shall be practicable; and to conduct its business without profit to the corporation or to its stockholders."

By incorporation in its present form the Teachers Insurance and Annuity Association secured to its policyholders these great advantages:

1. Freedom from overhead cost which absorbs some twenty per cent of the premiums of policyholders.
2. Policies having no loading and issued at the lowest net rate which the law will permit.
3. An opportunity to work out in the future a real participation of the policyholders in the government of the Association.

Was it in the interest of the future policyholder to forego these great advantages in order to put into his policy an agreement that it should share in any distribution of future surplus which the Company determined to be "divisible"? Such action would have sacrificed great and enduring advantages for a phrase which has come to have an exaggerated importance in the eyes of the general public and which ignores the fact that the real security for the policyholder depends not on the promise of participation in future dividends, which no one can estimate in advance, but on the strength and security of the company, on the fidelity and ability of those who conduct it and on the nature of the scrutiny to which the operations of the company are subjected by the public authorities. Responsibility and publicity are the foundations of the future

"divisible" surplus, not the form of organization of the insurance company. While the stock company writing non-participating policies may not promise such distribution in advance, once a surplus is earned the question of its "divisibility" is the same whether the Company be organized in the one way or in the other.*

There is a valid reason why the great insurance companies with their enormous accumulation of funds in reserves and surplus should not be stock companies. The stock of such companies are at the mercy of contending financial interests which seek to control them. Some of the large companies have encountered serious misfortune in the past from this source** and such a situation lends itself to a constant danger of manipulation by stockowners whose interests are not primarily those of the policyholders. The policyholders of the Equitable Company acted wisely when they mutualized that company two years ago by retiring the stock, even though they paid two and a half million of dol-

* The foregoing distinction between control of companies by stockholders and by policyholders has not proved of much importance in the past. Huebner, page 319.

** Yale Readings in Insurance, pages 299-300.

lars for $100,000 par value of 7 per cent stock.* That action removes the possibility of manipulation by stock control, but it will not put the control of the company into the hands of the policyholders. It is this situation which has made the mutual form of organization the predominant one in the United States. In England and in Canada for example the stock company form of organization predominates.

OTHER MISAPPREHENSIONS

The long suffering college professor has been memorialized not only by the Provident Life and Trust Company but by certain amateur exponents of the theory and practice of life insurance, who are also critical of the Teachers Insurance Association—its policies, its trustees, and its relation to the Carnegie Foundation. The misapprehensions contained in these publications are founded mainly on lack of knowledge either of the facts or of the legal and technical details which entered into the establishment of a new insurance agency. Most of these misunderstandings will vanish

* The policyholders of the Prudential paid nearly seventeen million dollars to retire capital stock the par value of which was slightly less than two million dollars.

as younger teachers—who are those most interested in the policies of the Teachers Insurance Association—come to understand the unique opportunities that these policies afford them. It is natural, however, that the teacher who has not hitherto given serious attention to insurance should be somewhat confused when he finds himself confronted with the statement that he can obtain quite as good facilities for his protection and for that of his family through existing insurance companies as through the Teachers Insurance and Annuity Association. If this were true there would be no sufficient reason for the existence of the Teachers Insurance Association. Exactly the opposite is true—the teacher cannot obtain in any existing insurance organization policies so suited to his needs or at such rates as he can obtain from an agency designed to serve his particular group, which is free of all overhead cost, which is by the terms of its charter prevented from accepting any profit for its trustees or its stockholders and is committed to the principle of offering insurance and deferred annuities to its policyholders "on terms as advantageous as shall be practicable."

The teacher sincerely seeking to find his way to a solution of the problem of his own protection will find his doubts

still further increased when he is confronted with figures which purport to be quotations from the offerings of certain insurance companies and which upon their face seem comparable in cost with similar policies in the Teachers Insurance Association. Unless the exact conditions attaching to each policy are fully stated such comparisons may be made on paper as would deceive the very elect.* Any comparison of policies is likely to be misleading which is not based on an actual examination of the

* For example, there was printed in one of the memorials addressed to college teachers the following comparison of annuities purchasable at age 65 for $1,000:

AMOUNT OF ANNUITY

Teachers Insurance Association...	$113.24
Metropolitan	116.92
Prudential	112.61

A footnote attached to the last two companies contained the word "Annual," but did not convey to the reader the fact that the last two policies covered a form of annuity that began a year, rather than a month, after the teacher's retirement. The comparable figures, equally accessible to the author of this statement, are as follows:

AMOUNT OF ANNUITY

Teachers Insurance Association...	$114.24
Metropolitan	111.00
Prudential	108.84

policies themselves. Few college teachers are in a position to do this, but the whole subject may be made clear by a brief statement of the method by which rates are determined in the regular life insurance companies and the history of the typical policy in a sound, well administered commercial company.

All life insurance policies are based upon a net rate fixed by legal requirements as to the assumed interest and the assumed mortality; the interest, 3½ per cent,* the assumed mortality that of the American Table of Mortality. This is the lowest net rate that can be assumed, and is the rate offered in the policies of the Teachers Insurance and Annuity Association. For example, at age 30 the net rate per $1,000 for an ordinary whole life policy with disability benefits is $17.40, and this is the rate at which the Teachers Insurance Association would issue such a policy. The contract provides that this rate shall never be increased, but it contains no promise that the policyholder shall have the benefit of any distribution of future surplus that may result in the operation of the company.

The ordinary good commercial com-

*Some insurance companies prefer to reckon their reserve liability on the very conservative basis of 3 per cent.

pany issuing this same policy will start from the net rate of $17.19 for insurance plus 21 cents for disability benefits and add a loading of from 30 to 35 per cent, so that the policy will be issued at about $22.62, and the company collects from the policyholder at this rate every year in the future, returning at the end of the year what it is willing to allot as a dividend.

If one follows the history of this policy in any good company it will be found to be approximately as follows: After the first year the policy will receive the benefit of dividends—in other words, a return of part of the premium. These arise from three sources. The loading is generally greater than the cost of management, so that a part of the loading can be returned. Most companies realize more than 3½ per cent on their investments and most companies have a mortality experience below the expectation of the American Table. From these three sources therefore arises what is called a dividend apportioned to policies upon a basis under which the dividend increases with the age of the policy. Consequently the net cost will diminish as the age of the policy advances, and if the policy remains in force over a long period the actual cost will approach the net rate. In the or-

dinary good companies it will require from fifteen to twenty-five years for the net cost to get down to the net rate. Evidently a company that can combine an economical management, a high interest rate and a low mortality over a long term of years will be able to furnish insurance at a lower cost than a company less favorably situated. Predictions for the future based on exceptional conditions in certain companies are, however, likely to be misleading. For example, a company by a very strict medical examination and by extensive solicitation that brings in a great number of young lives may be able to make an extraordinary showing in its mortality experience for a period of years, but estimates based on this showing and projected into the distant future are likely to be disappointing. The experience of the oldest, strongest conservative American companies that have been operating through a period covering two generations indicates that an overhead cost of 18 to 22 per cent, an interest rate of somewhere between 4½ and 5 per cent, and a mortality of approximately 70 per cent of the expectation are as good conditions as are likely to be realized over long periods of time. Projecting the favorable experience of a few years into predictions for the future in the solicitation of insurance is in some states prohibited by statute.

One may therefore assume that at some period, which probably will be between 15 and 20 years, the loaded policy rate will come down by the application of dividends to the net rate. This is, however, longer than the life of the average policy. In other words, the average policyholder will not see his actual premium come down to the level of the net rate.

If the policy remains in force beyond this period and the interest rate and mortality remain satisfactory the premium diminished by dividends will fall below the net rate by an increasing amount as time goes on. This circumstance has been used to create a certain amount of confusion. In any group of teachers who discuss this matter there is likely to be some one who has a policy purchased thirty or forty years ago and whose annual cost is at this moment well below the net rate of the same policy in the Teachers Insurance Association. Almost is such an one persuaded that this cherished policy is already a source of income.

Advantages of the Teachers Insurance and Annuity Association.

It still remains true that even in the long lived policy the teacher will have a great advantage in buying his insurance or his annuity from the Teachers Insurance Association entirely aside from the fact that some of its policies are not duplicated in existing companies.

The reason is extremely simple and includes but two considerations. The owner of a long-lived policy forgets the number of years which elapsed before his policy came down to the net rate. In only a few cases and those in policies of very long life will the average cost of the policy be below the net legal rate. In such comparisons also it seldom happens that the interest on the excess paid in earlier years is taken into account. In a comparison made of a $10,000 twenty payment life policy in a company whose interest rate and mortality had been among the most favorable and assuming similar favorable dividends for the future (a very large assumption) the following is the comparison with the net rate. The first year the loaded policy costs $93 more than the net rate, at the 15th year the loaded rate as affected by the assumed dividends would reach the level of the net rate, at the 19th

year the net rate would exceed the loaded rate as affected by the assumed dividends by $40. Allowing 4 per cent interest on all balances, whether in favor of one policy or the other, at the end of 20 years there would be a balance of $250 in the total payments in favor of the policy issued at net rate as against the loaded policy affected by the extraordinarily favorable dividends assumed.

The second consideration is this. The non-participating company issuing policies at the low net rate cannot under the law promise to distribute any surplus it may accumulate, but with corresponding interest rates and mortality experience, it ought to be able to accumulate a corresponding surplus. Such a company, free of overhead cost, which applied its surplus to dividends on the net rate would of course be able to offer rates impossible to any commercial company.

This statement of the history of the ordinary policy together with the preceding information concerning the reasons for the organizations of the Teachers Insurance and Annuity Association completely cover this matter.

There is still one other statement which works to the confusion of those unacquainted with insurance business. The teacher has been presented with

quotation of rates on certain life insurance policies offered by only a few companies and which as he is told, and as they are described, seem to be comparable with policy rates in the Handbook of the Teachers Insurance Association.

The explanation of this situation is found in the keen competition which goes on in the insurance business. As has been stated, the ordinary sound commercial company starts its policies with a loading of from 30 to 35 per cent, thereby giving itself a margin of safety within which its business can be securely conducted. Some companies have issued a few exceptional policies having a very small loading—in one case of only 5 per cent. It goes without saying that no company whose overhead expense amounts to 20 per cent of the premiums paid by its policyholders could afford to put any large amount of its business on this basis. It is against the principle upon which such a company operates and such policies cannot bear their fair proportion of the overhead which must therefore be borne by other policies. It will be found generally that these policies carry conditions that prevent any general use of them.

There is no compulsion on any teacher to buy insurance from the Teachers

Insurance and Annuity Association, and if he can get the same protection elsewhere at better rates he ought by all means to do it. He cannot. But the teacher who makes the attempt will have an enlightening experience in the matter of insurance.

THE RELATION OF THE OLD AGE ANNUITY TO COLLEGE SALARIES

Such questionings as are directed toward the policies issued by the Teachers Insurance and Annuity Association have been answered in the preceding pages. There remain a few enquiries which concern themselves with the teacher and his ability and willingness to cooperate in such a system of old age annuities.

The plan offered in the Teachers Insurance Association rests upon the only principles which can insure contractual security, the widest measure of freedom, and a cost determinable in advance. The colleges and universities that are participating in the contributory system of old age annuities say to their teachers —if you elect to take out an annuity contract the college will cooperate with you by a similar contribution not to exceed five per cent of the salary and

up to an agreed maximum. While the conditions of cooperation vary somewhat in different colleges and universities they are in effect those just stated.

While this arrangement has been welcomed by many teachers a few doubts have been expressed in some such enquiries as these. Is the teacher on his meager pay able to contribute five per cent (or any sum he may prefer) toward an old age annuity? Will not the annuity contribution of the college become in time merely deferred pay? These matters have been dealt with in the various reports of the Carnegie Foundation, but a brief re-statement may be of interest to those who have not read these voluminous documents.

The college professor, like every other man on salary, feels the pinch of the present high prices. His pay has risen in the last ten years, and in the last five years, but not so much on the average as the pay of men in certain other callings. The question of the scale of salaries is however an entirely different question from that of making available to the great body of teachers an effective means for the protection of themselves and of their families. If the teacher's pay is to be so small that he can do nothing under the best machinery possible for his own protection,

then the future of the college professor is hopeless. As a matter of fact, no scale of salaries that can ever come into existence will enable teachers to devote even a moderate part of their income to insurance or to an old age annuity without a certain measure of self denial. This is true of all other callings. The average lawyer's income, for example, is probably below that of the average college professor. Furthermore no scale of salaries will ever fit the needs of all men in a given group at any one time. There will always be men on part time or with large families on inadequate salaries who will be disturbed at the notion of devoting any part of their modest pay to such a purpose. No plan can be invented short of the millenium to care for each individual case. The teacher with a family of six children living on a salary of one thousand dollars a year —even in a village—would need extraordinary management and self-denial to put aside anything for the future. No system can be set up, or ought to be set up, based on his situation. For the great body of teachers the question of participation in a system of old age annuities is one of moderate resolution and self-control. College salaries will never be put on a basis where these qualities will not be necessary, in some meas-

ure, if the future of the teacher and of his dependents are to be safeguarded at all. The Teachers Insurance and Annuity Association offers such a man the best machinery which can be desired to carry out this purpose, whatever be the scale of salaries of the future.

The establishment of a fair living salary for the college professor is another problem and one to be worked out patiently and hopefully but in full view of the various factors involved. The average salary of the college professor in the United States and Canada is probably larger than the average pay of any other professional group. There are however no great financial prizes such as come to a few lawyers and physicians. Furthermore, of the one thousand colleges in the United States and Canada, fully half have no means to pay salaries beyond a bare living. This fact will always affect the general scale of salaries.

College salaries have also been enormously diluted by the tendency of most college faculties and governing boards to bid for students by extending the curriculum over the whole field of knowledge, a process which means great increase in the number of teachers and the consequent leveling down of salaries. Without going into the general discussion of the salary question this much may

be said—the salary scale and the protection of the teacher and his family are separate questions. The establishment of a sound system of annuities combined with insurance suited to his needs and at the lowest net rate found to be practicable is absolutely in the interest of the teacher. In this respect the contributory plan has an enormous advantage over any system of free pensions because the question of pay and the question of pension are separated and each stands upon its own feet. For example, in the experience of the Carnegie Foundation young men of thirty have declined increases of salary of from six hundred to a thousand dollars a year in order to remain in an associated institution for the prospect of a pension at 65 of $1,200 a year. An examination of the rates of policies in the Handbook of the Teachers Association will make clear the fact that the increase of salary would have paid for the pension several times over.

Contribution by the College.

The complaint that the contribution of the college (in this case the employer) will in time be absorbed in the salary schedule and that hence the teacher will, in the long run, pay his

own old age annuity has been fully dealt with in the reports of the Foundation, leading up to the establishment of the Teachers Insurance Association. The literature of the subject is covered in these reports. It is there shown that in a system of pensions paid for by the employer—or by anybody else—the pension privilege will in time be considered a part of compensation. The disadvantage of the pension paid wholly by the employer—aside from its other weaknesses—lies in the fact that the pension privilege is valued beyond its financial worth and that while it affects all salaries only a minority receive the benefit.

Under the contributory plan contemplated in the deferred annuity contracts of the Teachers Insurance Association the compensation of the college teacher for the future will be salary plus an annuity. For the next ten or fifteen years or perhaps longer the college contribution to this annuity will be in effect an increase in compensation. By that time if the use of the contributory system becomes general the college contribution to the annuity will come to be a part of the total compensation but dedicated to a special purpose in which the college and the teacher alike are interested. The result is, the salary has been put on a higher level and it will still remain

to the great advantage of the teacher and his family that his employer, the college, continue to advance this money and place it to his credit in the annuity account. In other words—for the time the compensation of the teacher is increased so as to become salary plus old age annuity. Upon this higher level the annuity will in time become a regular part of compensation and future increases of the salary scale will be determined exactly as in the past. This arrangement is wholly in the interest of the teacher, for even when looked upon as deferred compensation the contribution of the college must in every case return with its accumulation to the teacher or his family. Meantime the essential objects are accomplished—the teacher is protected, the college faces its responsibility and the scale of compensation is bettered.

Any teacher who feels the college contribution, to be, under these conditions, against his interest, has a very simple remedy. He needs only to decline it.

THE TEACHER AND THE INSURANCE AGENT

The fundamental question as to the service which the Teachers Insurance Association may render to the great body of teachers in the United States and Canada is not a question of the teacher's salary nor of his ability to provide for his own protection by the aid of machinery so completely fitted to his economic needs. That uncertainty is the one voiced in a former report of the Foundation and quoted on the cover of this brochure.

> "It is of course a fundamental question as to whether teachers can be induced to avail themselves of insurance facilities, however favorable, without the pressure of the soliciting agent. This is a matter which only experience can demonstrate."

No great body of men or women has hitherto been gathered into insurance companies except under the pressure of the agent's solicitation. The acquirement of old age annuities is like the process of getting religion—the young are not interested in it when it can be had on favorable terms and the old can't

get it. Will college teachers as a group avail themselves of the extraordinarily favorable facilities for insurance and for old age annuities provided by this new agency without the gentle pressure of the insurance agent?

Some two years ago when the details of the formation of the new company were under discussion an able actuary of one of the great companies made the hopeful prediction that owing to the superior intelligence of the group to whom the appeal is made the facts will be understood and acted upon, while, as he added plaintively," we who are in the commercial companies must carry our salvation to the man in the street who cannot be converted or informed by a printed page." Some such reasoning formed the basis of the faith that such an agency would be availed of by the college teachers of the United States and Canada through the medium mainly of the printed statement and without the pressure of the soliciting agent.

Just how large a part the agent's solicitation plays in the securing of permanent life insurance policies is not easy to determine. So long as great soliciting organizations must be maintained all business will be credited to this source. The situation is somewhat like that of Billy Sunday touching those

who tread the "sawdust trail." He counts all as saved (and of course by his machinery) although a little examination makes it clear that a large proportion of the trailers are church members (they had got their own insurance), a very large proportion do not stick (they allow their policies to lapse), and only a minority are permanently saved (hold on to the policies they are persuaded by Mr. Sunday to take out).

In other words it is not clear just how many of a particular group in the body politic could be induced to insure under some other system than that of direct solicitation by agents, nor how this number would compare with that of those who remain insured. The amount of insurance written by the Bureau of War Risk Insurance shows what can be done under exceptional circumstances and upon a non-commercial basis. Nevertheless experience so far is all one way. Where men must be reached individually, the method of solicitation is the only one that has gathered large groups into insurance companies.

On the other hand, the college teachers of the United States and Canada constitute not only a highly intelligent group, but the fact that they are already assembled in college faculties makes a situation quite different from that of reach-

ing the individual independently of his group. The college is itself interested in the annuity side of the Teachers Insurance Association and the college bursar or treasurer will become in time a ready source of information to a teacher who is contemplating either insurance or annuity.

In addition the Teachers Insurance Association, being free of commercial pressure, is enabled to propose policies based upon the simple and direct principles of life insurance entirely comprehensible by any intelligent man or woman willing to devote a brief time to a study of the meaning and use of insurance. It is a part of the work of the Teachers Insurance Association to put this information into the hands of teachers. The present bulletin is intended to serve this purpose, by removing certain misapprehensions that have been created in one way or another. It will be followed by similar (but briefer) bulletins upon "What is Life Insurance For?" "How Much Insurance Ought a Man to Carry?" "How to Choose a Policy," and similar topics. In other words, the Teachers Insurance Association will put into the hands of teachers information touching insurance such as will enable them to decide intelligently how their interests may best

be served in these fields. This is a very different matter from that of explaining insurance business and organization. It is true that similar information has been given out by other insurance organizations that operated without agencies and not always with the highest success, but not to a homogenous group of persons engaged in a single profession and gathered into convenient bodies. The experience of the Presbyterian Ministers' Fund, the oldest insurance company in the United States, indicates that such information can be successfully placed in the hands of a professional body united by common ties when it is difficult to do the same thing for the same number of individuals. The final purpose of the Teachers Insurance and Annuity Association will not be attained unless it reaches in time the great body of the college teachers of the United States and Canada. Whether they can be reached by methods that do not succeed with the average man remains to be seen. The experiment is an interesting one from many points of view. Fortunately the matter does not need to be settled in haste. The Teachers Insurance and Annuity Association offers policies carrying extraordinary advantages. Beyond obtaining a moderate number of policies sufficient to give a

fair distribution of the risk it has no occasion to strive for numbers and the outcome will be interesting not less from the point of view of the Association than from that of the teachers themselves. It offers its policies to teachers end employes in higher institutions of teaching and of research—colleges, technical schools, normal schools, institutions of research, etc.—upon the most favorable terms consistent with complete financial security. It will sell either an insurance or an annuity policy. It will deal with the individual teacher or will cooperate with the teacher and his college. It will give all information possible to any teacher or employe of these institutions who cares to inquire. It has no agents and issues policies only from its home office. It will do all in its power to furnish information about its policies. It is for the college teachers to decide how far they will make use of this service.

RELATION OF THE TEACHERS INSURANCE ASSOCIATION TO THE CARNEGIE FOUNDATION

It remains finally to say a few words concerning the relations between the Carnegie Foundation and the Teachers Insurance and Annuity Association.

They are distinct and independent corporations. The former is, in the eyes of the law, a charitable institution, chartered by the Congress of the United States; the latter is an insurance company chartered under the laws of the State of New York and subject in all its operations to the authority of the Superintendent of Insurance. The Carnegie Foundation can, under its charter, make discriminations among institutions upon educational, denominational or other grounds. Its charter compels it to make certain discriminations in regard to institutions that require denominational tests of trustees or teachers. The Teachers Association can impose no such tests, it makes no discriminations and cannot be used for the purpose of educational propaganda in any form. In dealing with the Teachers Insurance Association, teachers are concerned only with questions that pertain to all insurance companies—its financial solvency,

the fidelity and trustworthiness of its management and the effectiveness of the scrutiny of any state department of Insurance. All this is perfectly understood by those who have looked into the facts.

It remains true, however, that the Teachers Insurance Association grew out of the experience and study of the Foundation. It was made a separate corporation under state supervision to accomplish two results—first to make the pension a matter of individual contract; second, in order that the question of old-age annuities might be divorced from any question of educational studies or discriminations. The Teachers Insurance and Annuity Association is the child of the Foundation and it would be strange indeed if it failed to receive from the Foundation full assistance and support.

The Trustees.

The Association has sixteen trustees. The first trustees had to be named in the charter and were therefore selected by the incorporators. The sole basis of their selection was fitness for the duties of trustees. The incorporators**

** The incorporators of the Association were the following: Elihu Root, Nicholas Murray Butler, Arthur Twining Hadley,

deemed it necessary for the purposes of the Association to include a strong financial group and a group of able and experienced business men.

They also felt it necessary to have represented upon the board actuarial experience and knowledge. The action of the Corporation as expressed in the resolution already quoted provided for a representation of policyholders in due course. It was thought desirable, however, in the meantime, to have upon the board representative teachers. With this object in view two of the associates of the Foundation engaged in the work of the division of Educational Enquiry consented to become members of the Board for the purpose of organization and two members of the Committee on Pensions of the Association of American University Professors were invited at their convenience to become trustees of the Teachers Insurance Association. One of these has since declined and in his place was elected a well known professor of insurance in one of the large universities, the chairman of one of the

---

Jacob Gould Schurman, Alexander C. Humphreys, Charles A. Stone, John Bassett Moore, Robert Weeks de Forest, George Woodward Wickersham, Newcomb Carlton, Edward Robinson, George Foster Peabody, Henry S. Pritchett.

actuarial committees which reported on the plan of the Association.

The board of trustees is therefore made up at present (May, 1919) as follows: There are sixteen trustees, of whom fourteen are from the United States and two from Canada; four of this group are among the ablest financial men in America, whose knowledge of opportunities for sound investments is not exceeded by any group of men on the continent; five are business men of varied experience; one is an actuary of one of the great insurance companies; three are college professors (two of whom are expert actuaries), one is a college president, the two remaining being the president of the Carnegie Foundation and temporarily one of the staff of the Foundation.

Of the sixteen trustees four are trustees of the Carnegie Foundation—three business men and the president of the Foundation. The entire choice of trustees has been made with the purpose of forming a group of men competent to conduct an insurance company. The Carnegie Foundation neither controls nor desires to control this board of trustees. The intimation that the Foundation might desire to effect such control for the purpose of educational propaganda is both short sighted and

ungenerous. The purpose of the Insurance Association is clearly stated in its charter. It can be used for no other. The Carnegie Foundation has never attempted to exert upon its associated colleges and universities any such influence as this unworthy suspicion suggests. This form of complaint is an inheritance of the Teachers Insurance Association from the Carnegie Foundation.

The Lessons of Experience.

A certain disappointment and even a certain resentment toward the Foundation on the part of some teachers appeared when the Foundation changed its pension system from a full pension for a limited group of teachers, to a contributory and contractual plan open to all college teachers. This outcome (for the present at least) was ineluctable, no matter how compelling the reasons for the change, and nothwithstanding the fact that the Foundation continues the free pension system to the six thousand teachers in the associated colleges for fifty years to come at a cost of approximately sixty millions of dollars. The minds of college men were adjusted to the notion of the free pension for college teachers and largely through the influence of the Carnegie Foundation.

The Foundation was instituted at a time when no other conception of a pension was entertained. The conception was found to be a mistaken one from every point of view—social, economic, financial. The trustees of the Foundation have met the situation in the only way that honest men could—first, by a thorough study to determine a sound solution of the pension problem, one available not only to a small group but to the whole body of college teachers of English-speaking North America; and secondly, by a generous fulfilment of the expectations of teachers under the old system. The Teachers Insurance and Annuity Association is the constructive result. The extension of the old rules for fifty years into the future is the most generous solution of such a situation ever carried out by a board of trustees dealing with pension expectations. It is a generous fulfilment of the moral obligations of the Foundation, there were no legal obligations. Fifty years hence the Carnegie Foundation will be paying the pensions of teachers whose only claim to this privilege will rest on a few months of teaching as a college instructor a generation before. The only change made in the rules which appreciably affected the pensions these teachers will receive 30 or 40 years hence was the change in

the minimum age of retirement after a certain date—a change the Foundation had specifically reserved the right to make.

The Desires of College Teachers.

Notwithstanding all these circumstances, notwithstanding the fact that the Teachers Insurance Association carries out faithfully the notions of college teachers themselves as obtained by wide correspondence and extended conferences, it was inevitable that when the Foundation changed from a free pension system to a contributory system there should be a certain discontent and distrust, and that this should find expression not only toward the Carnegie Foundation but against its child, the Teachers Insurance and Annuity Association. It is too much to expect of human nature that all the beneficiaries of a system would approve a decision which curtails to some extent privileges whose rules of administration few had read and which were therefore regarded by many in the light of a contract. The great body of teachers, while not entirely accepting the notion that the free pension is not justified, and while they regret the changes in the minimum age of retirement, nevertheless realize that the responsibility for this determination rests upon the trustees, that it involves a number of difficult questions in the use of trust funds and that the solution which has been reached represents a sincere and well-considered effort to deal justly with many interests. Those who have made the loudest complaints are generally the same group which has consistently stood for a conception of the teacher's pension as a subsidy to be given early in life. It would astonish the teaching profession to read the list of those who, for one reason or another, felt they ought to be subsidized in the early fifties in order to leave teaching for some other career which seemed more attractive.

To this feeling of irritation—it is a feeling, not a reasonable opinion—there is only one reply. Honest and sincere men differ not from any difference in honesty but from difference in the point of view. Two men looking from windows on opposite sides of a house are not likely to describe the same things, though both may be honest and both accurate as far as they see. The trustees of the Foundation have sought as well as they were able to view this question from every point of view. Those who regard it solely from the standpoint of the beneficiary are looking from one window. That the two views dif-

fer as little as they do is due to the fact that the trustees of the Foundation and of the Carnegie Corporation have gone to great lengths to fulfill expectations in the spirit rather than in the letter.

So far as the Teachers Insurance and Annuity Association is concerned it deserves to stand upon its own merits. Its policies are already making their own way as their value is understood and misunderstandings and misapprehensions have been cleared away. Their wider use may safely be left to time and to fuller knowledge.

THE REAL QUESTIONS BEFORE THE TEACHER AND HIS COLLEGE

The long, and somewhat heated discussions, over the details of insurance organization laid before college teachers have gone far to obscure in their minds the fundamental questions involved. We have the curious spectacle of men deeply stirred over matters of insurance organization and administration! The terms mutual or non-mutual, participating or non-participating have been made the subjects of appeals full of feeling by persons most of whom never considered these matters until a few months ago.

As a matter of fact the college teacher has no real interest in these technical details. Once the machinery has been set up it will not make the slightest difference to him whether these details are finally determined in one way or in another, provided the trustees who manage the machinery are honest, capable and sincerely desire to provide college teachers a secure means for protection against the hazards incident to family life on a modest salary. The simple knowledge necessary to decide his own insurance questions he can easily attain, a knowledge of insurance technique and management he cannot hope to reach without an expenditure of time and study wholly unjustifiable. The experience of insurance management throughout the world shows that these details are nonessentials. Let us for a moment step aside from the confusion into which all these discussions have brought us and state in the lowest terms the essential questions before the teacher and his college so far as his protection and that of his dependents are concerned.

Fundamental Questions.

Every college teacher faces these two questions. How shall I protect my family against my premature death, and how

shall I protect myself against dependence, should I survive to old age? Every college board in the United States and Canada must on its side face the question, shall the college board, as employer, cooperate in some form of old age protection for the teacher that will enable him to retire when his powers wane?

As long as these questions were met by the offer of a pension paid by an outside agency the teachers and the colleges to whom they were made available accepted the protection heartily and gladly.

Experience has shown that considerations partly social, partly economic and financial, make such a solution impossible for the teachers of a democratic nation. No state, no corporation, no college can afford to embark upon a system of free old age pensions for its citizens, its employes, or its teachers. The noncontributory pension for college teachers has gone. In its place, after years of study and with the aid of the expert advice of Europe and America, a form of cooperation between the teacher and his college has been worked out for providing the necessary protection. It places upon the teacher the responsibility he ought to take and upon the college board the responsibility resting upon the employer. It meets the fundamental conditions of a pension system as defined by

a commission composed of college presidents, university teachers designated by the Association of American University Professors, and representatives of educational organizations. The commission had the benefit of the literature on the subject and of expert advice. As fundamental conditions of a permanent pension system it named the following:

Pension Principles.

(1) The pension must be contractual with the individual teacher and the reserve to carry out the contract must be set aside year by year.

(2) The pension, or old age annuity, should rest on the joint contributions of the teacher and his college.

(3) The benefits of all payments into the contract of any teacher whether by himself or his college must with their accumulations be secured to the teacher whether he remain in the college, go to another college or leave teaching altogether.

(4) The contributions must be upon a plan which shall provide old age

annuities proportional to the salaries at a cost capable of estimation in advance and within the financial ability of the teacher and of his college.

The fundamental question which the teacher and his trustees face is, Are they severally willing to cooperate in a system so conceived?

Approval of Leading Institutions.

Neither teachers nor boards of trustees have given very serious attention to this fundamental question. College boards and college presidents are pressed for money for many other purposes. They are not likely to cooperate in teachers pensions until the nature of this obligation is more generally understood. One thing will operate to bring this matter to decision. The stronger American and Canadian institutions of higher learning are ready to meet their obligations in this matter. They will cooperate upon some plan with their teachers—and particularly with younger teachers—to solve this problem. In time every strong college will find it necessary to cooperate with its teachers in some plan for old age protection.

The Teachers Insurance and Annuity

Association is the attempt to solve the problem of the teachers' protection upon the lines laid down by the Commission. Its contracts are individual. They provide for payment by the teacher in cooperation with his college or without such cooperation. They bring the cost within the reach of both teacher and college.

The teacher who is desirous to avail of the best facilities for his protection will need assurance on the questions:

(1) Does the Teachers Insurance and Annuity Association effectively carry out the principles just stated?

(2) Is it under the direction of honest and competent trustees?

(3) Does my college recognize its obligation to cooperate with me in providing an old age annuity?

Whether the company be on the mutual or stock company basis and whether its policies are written as participating or non-participating are of infinitesimal significance in comparison with these fundamental questions which recent discussion has done much to obscure.

END OF
TITLE